

MEMORANDUM



DATE: February 5, 2015
TO: House Appropriations Committee
FROM: Jim Stansell, Senior Economist
RE: Michigan Economic Growth Authority (MEGA) Tax Credit Information

This memo summarizes some of the key points that were discussed at the January 28, 2015 meeting concerning the outstanding Michigan Business Tax (MBT) credits.

In FY 2010-11, the last full fiscal year during which MEGA credits were awarded, 72 MBT credits totaling almost \$2.4 billion were approved by the MEGA board. However, the vast majority of that total is comprised of just two credits: a \$1.36 billion, 20-year credit awarded to Chrysler and a \$909.0 million, 15-year credit issued to Ford. Both are classified as retention credits in that the intent is to keep existing jobs in Michigan as opposed to creating additional jobs. A complete list of the approved credits for FY 2010-11 is included at the end of this memo.

Five additional credits totaling just under \$20 million were awarded in FY 2011-12, although because the MBT was replaced by the Corporate Income Tax (CIT) effective January 1, 2012, MBT credits were no longer awarded after December 2011. Since the existing credits were not carried over to the CIT, those taxpayers that had been awarded MBT credits were permitted to file under the MBT and claim the credits as long as their credits remained in effect.

Over a three-year period beginning in December 2011, the Michigan Strategic Fund (MSF) board amended approximately 60 MBT credits. Roughly one-quarter of these amendments were purely technical in nature (for example, to account for a name change of the recipient) while the rest were designed to make an existing credit easier to claim by adjusting the requirements or increasing the amount of the credit to reflect that the recipient exceeded the conditions. In either instance it can generally be assumed that the net impact is to reduce General Fund revenue relative to keeping the credit as it had been originally assigned.

Because of the inherent uncertainty as to when (or if) taxpayers will actually claim credits, as well as the duration of many of the outstanding credits, is very difficult to predict the net impact on MBT revenues in any specific year. Just because more (or fewer) credits are redeemed in any specific fiscal year doesn't necessarily imply an annual trend that can be assumed going forward.

Although the only reason that taxpayers are allowed to file under the MBT is to claim (or at least maintain the right to claim) existing certificated credits, it typically necessitates making quarterly estimated payments and/or annual payments which reflect current economic activity. Therefore, when a return is filed, there is a partial offset against any credits that are being claimed.

The following table shows the calculations used to develop the MBT estimates adopted at the most recent Consensus Revenue Estimating Conference.

Estimated MBT Revenue
(in Millions)

	<u>FY 2014-15</u>	<u>FY 2015-16</u>	<u>FY2016-17</u>
Quarterly and Annual Payments	\$50.0	\$50.0	\$25.0
Less: MEGA Credits	(394.1)	(555.4)	(505.7)
Less: Battery Credits	(242.0)	(182.0)	(100.0)
Less: Other Credits	<u>(94.7)</u>	<u>(120.0)</u>	<u>(66.3)</u>
Net MBT Revenue	(\$680.8)	(\$807.4)	(\$647.0)

The majority of the battery credits are expected to be claimed by FY 2017-18 since they were awarded for a much shorter period of time than traditional MEGA credits, while the other credits (primarily historic preservation and Brownfield credits) should continue for a number of years. Clearly, the existing MEGA credits will generate the most long-lasting impact, and although they will diminish with time and eventually disappear, it is anticipated that the stream will remain uneven and will reduce General Fund revenue for the foreseeable future.

Please feel free to contact me if you have any questions.

Attachment

MEGA Board Approved Projects - By Board Approval Year

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

MEGA Board Approval Date	Company Name	MEGA Type	Project City	Project County	Projected Jobs Created (maximum jobs allowed)	Projected Jobs Retained (maximum jobs allowed)	Projected Capital Investment	Total Years Approved	Estimated Credit Amount
10/26/2010	Cequent Performance Products, Inc.	MEGA High Tech/High Wage - 2010	PLYMOUTH	Wayne	60		\$3,472,073	6	\$897,000
10/26/2010	Chrysler Group LLC	MEGA Retention - 2010	AUBURN HILLS	Oakland		20,000	\$1,000,000,000	20	\$1,360,189,000
10/26/2010	Creative Foam Corporation	MEGA High Tech - 2010	FENTON	Genesee	63		\$1,500,000	5	\$362,000
10/26/2010	Dematic Corporation	MEGA - 2010	GRAND RAPIDS	Kent	505		\$10,901,000	5	\$3,252,000
10/26/2010	Dokka Fasteners, Incorporated	MEGA High Tech - 2010	AUBURN HILLS	Oakland	90		\$20,596,000	7	\$1,521,000
10/26/2010	Dynamic Captioning LLC	MEGA High Tech - 2010	GRAND RAPIDS	Kent	40		\$554,000	5	\$170,000
10/26/2010	EnovateIT, LLC	MEGA - 2010	FERNDALE	Wayne	160		\$4,450,000	6	\$1,105,000
10/26/2010	Eovations, LLC	MEGA High Tech - 2010	BAY CITY	Bay	64		\$16,000,000	7	\$1,295,000
10/26/2010	Ford Motor Company	MEGA Retention - 2010	DEARBORN	Wayne		28,000	\$850,000,000	15	\$909,023,000
10/26/2010	Mountain Valley Recycling, LLC	MEGA - 2010	STERLING HEIGHTS	Macomb	396		\$29,500,000	7	\$5,102,000
10/26/2010	P3-North America, Inc.	MEGA High Tech - 2010	TROY	Oakland	65		\$332,130	5	\$486,000
10/26/2010	Roush Cleantech, LLC	MEGA High Tech - 2010	PLYMOUTH	Wayne	54		\$2,105,390	7	\$1,156,000
10/26/2010	Yanfeng (USA) Automotive Trim Systems, Inc.	MEGA - 2010	HARRISON TOWNSHIP	Macomb	131		\$17,095,737	7	\$1,106,000
11/17/2010	AJM Packaging Corporation	MEGA - 2010	SOUTHGATE	Wayne	125		\$28,330,000	5	\$565,000
11/17/2010	Bright Automotive Incorporated	MEGA High Tech - 2010	ROCHESTER HILLS	Oakland	204		\$11,062,000	5	\$4,327,000
11/17/2010	Gerdau Macsteel	MEGA Retention - 2011	MONROE	Monroe		778	\$66,950,100	5	\$9,289,000
11/17/2010	Member Driven Technologies	MEGA High Tech/High Wage - 2010	SOUTHFIELD	Oakland	101		\$6,486,251	5	\$557,000
11/17/2010	Michigan Automotive Compressor, Inc.	MEGA Retention - 2010	PARMA	Jackson		562	\$72,000,000	5	\$4,941,000

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11/17/2010	Montplast of North America, Incorporated	MEGA High Tech/High Wage - 2010	AUBURN HILLS	Oakland	25		\$2,357,000	5	\$325,000
11/17/2010	Toyota Boshoku America, Inc.	MEGA High Tech - 2010	NOVI	Oakland	40		\$3,213,070	5	\$210,000
12/14/2010	Acument Global Technologies	MEGA - 2010	STERLING HEIGHTS	Macomb	150		\$5,115,000	5	\$875,000
12/14/2010	Force By Design, Inc.	MEGA - 2010	EAST LANSING	Ingham	50		\$430,000	3	\$231,000
12/14/2010	Otto Bock Polyurethane Technology Inc.	MEGA High Tech - 2011	ROCHESTER HILLS	Oakland	98		\$13,347,000	5	\$672,000
12/14/2010	Piston Automotive LLC	MEGA - 2010	REDFORD	Wayne	135		\$14,937,000	5	\$889,000
12/14/2010	Plasan Carbon Composites, Inc.	MEGA High Tech - 2010	WIXOM	Oakland	238		\$21,270,500	5	\$3,489,000
1/18/2011	Avon Protection Systems, Incorporated	MEGA Rural - 2011	CADILLAC	Wexford	143		\$600,000	6	\$596,000
1/18/2011	Changan US Research and Development Center, Inc	MEGA High Tech - 2011	PLYMOUTH	Wayne	161		\$7,010,000	7	\$1,722,000
1/18/2011	Chemetall US, Inc.	MEGA Retention - 2011	ROMULUS	Jackson		74	\$20,730,000	5	\$821,000
1/18/2011	Crain Communications Inc.	MEGA High Tech/High Wage - 2011	DETROIT	Wayne	50		\$3,595,000	5	\$443,000
1/18/2011	Macomb Pipe and Supply Company, Inc.	MEGA Retention - 2011	STERLING HEIGHTS	Macomb		107	\$6,500,000	6	\$1,005,000
1/18/2011	Macprofessionals, Inc.	MEGA High Tech - 2011	NOVI	Oakland	119		\$2,165,054	5	\$569,000
1/18/2011	Martinrea Jonesville LLC	MEGA - 2011	JONESVILLE	Hillsdale	168		\$15,899,279	5	\$990,000
1/18/2011	MTU Detroit Diesel, Inc.	MEGA Retention - 2011	BROWNSTOWN	Wayne		245	\$32,006,000	8	\$5,892,000
1/18/2011	MTU Detroit Diesel, Inc.*	MEGA - 2011	BROWNSTOWN	Wayne	115			8	\$1,712,000
1/18/2011	Nu-Vu Food Service Systems	MEGA Rural - 2011	MENOMINEE	Menominee	40		\$950,500	3	\$90,000
2/15/2011	American Broach and Machine Company	MEGA High Tech/High Wage - 2011	YPSILANTI	Washtenaw	43		\$25,000,000	7	\$573,000
2/15/2011	Benteler Automotive Corporation	MEGA - 2011	AUBURN HILLS	Oakland	250		\$3,966,500	5	\$1,246,000

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2/15/2011	Faurecia Interior Systems Inc.(NA HQ)	MEGA - 2011	AUBURN HILLS	Oakland	428		\$19,380,000	7	\$4,322,000
2/15/2011	Fluid Routing Solutions Incorporated	MEGA Retention - 2011	BIG RAPIDS	Mecosta		277	\$12,500,000	7	\$1,696,000
2/15/2011	Gemini Group, Inc.	MEGA Retention - 2011	BAD AXE	Huron		555	\$52,569,105	8	\$5,585,000
2/15/2011	Gemini Group, Inc.*	MEGA - 2011	BAD AXE	Huron	290			5	\$971,000
2/15/2011	IPC Print Services, Inc.	MEGA Retention - 2011	SAINT JOSEPH	Berrien		208	\$23,055,000	5	\$1,071,000
2/15/2011	KUKA Robotics Corp. USA	MEGA Retention - 2011	SHELBY TOWNSHIP	Macomb		68	\$4,690,000	5	\$1,039,000
2/15/2011	MedAssurant, Inc	MEGA - 2011	LANSING	Ingham	404		\$4,033,000	5	\$2,232,000
2/15/2011	Merit Technologies Worldwide	MEGA - 2011	CANTON	Wayne	89		\$16,888,000	5	\$442,000
2/15/2011	Metalloid Corporation	MEGA Rural - 2011	STURGIS	St. Joseph	30		\$365,000	5	\$228,000
2/15/2011	Patriot Solar Group, LLC	MEGA - 2011	ALBION	Calhoun	193		\$3,954,000	5	\$1,288,000
2/15/2011	Unistrut International Corporation	MEGA - 2011	WAYNE	Wayne	86		\$4,525,000	5	\$606,000
2/15/2011	WABCO North America LLC	MEGA High Tech - 2011	ROCHESTER HILLS	Oakland	100		\$2,187,460	5	\$987,000
2/15/2011	XG Sciences, Inc.	MEGA High Tech - 2011	LANSING	Ingham	50		\$6,638,900	5	\$436,000
3/15/2011	Atomic Object, LLC	MEGA High Tech - 2011	GRAND RAPIDS	Kent	30		\$983,000	4	\$162,000
3/15/2011	Detroit Heavy Truck Engineering LLC	MEGA High Tech - 2011	NOVI	Oakland	49		\$4,624,000	5	\$234,000
3/15/2011	Dialogue Marketing, Inc.	MEGA - 2011	TROY	Oakland	230		\$5,013,000	3	\$474,000
3/15/2011	Health Business Solutions	MEGA - 2011	DEARBORN	Wayne	206		\$2,618,920	5	\$816,000
3/15/2011	Key Plastics L.L.C.	MEGA - 2011	NORTHVILLE	Livingston	297		\$10,297,800	4	\$1,105,000
3/15/2011	Knape & Vogt Manufacturing Company	MEGA - 2011	GRAND RAPIDS	Kent	122		\$1,247,485	5	\$335,000
3/15/2011	Lakeside Software, Inc.	MEGA High Tech - 2011	BLOOMFIELD HILLS	Oakland	198		\$6,144,000	5	\$731,000
3/15/2011	Michigan Iron Nugget LLC	MEGA Rural - 2011	TILDEN TWP	Marquette	114		\$280,000,000	6	\$1,937,000

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3/15/2011	Sketee-Van Huis	MEGA - 2011	HOLLAND	Ottawa	180		\$5,322,000	4	\$865,000
3/15/2011	Spartan Motors, Inc.	MEGA - 2011	CHARLOTTE	Eaton	450		\$5,144,000	10	\$8,859,000
4/19/2011	Hearthside Food Solutions	MEGA - 2011	KENTWOOD	Kent	302		\$17,500,000	5	\$1,232,000
4/19/2011	Magna Electronics	MEGA - 2011	HOLLY	Genesee	385		\$64,835,538	5	\$2,110,000
4/19/2011	Magna Steyr North America	MEGA High Tech - 2011	TROY	Oakland	200		\$765,000	3	\$1,572,000
4/19/2011	Systrand Manufacturing Corporation	MEGA Retention - 2011	ROCKWOOD	Wayne		162	\$19,250,000	4	\$716,000
5/17/2011	Kenersys Americas LLC	MEGA - 2011	TROY	Oakland	160		\$10,242,000	5	\$1,017,000
5/17/2011	Summit Health, Inc.	MEGA - 2011	NOVI	Oakland	252		\$11,375,584	3	\$514,000
5/17/2011	Tianhai Electric North America, Inc.	MEGA - 2011	LAKE ORION	Oakland	202		\$5,468,000	3	\$299,000
6/14/2011	HP Enterprise Services, Inc.	MEGA - 2011	PONTIAC	Oakland	250		\$4,790,000	7	\$3,552,000
6/14/2011	Magna Exteriors and Interiors USA, Inc.	MEGA - 2011	CHINA TWP	St. Clair	333		\$14,440,100	3	\$1,496,000
7/19/2011	Science Applications International Corporation	MEGA High Tech - 2010	LIVONIA	Wayne	50		\$805,000	2	\$589,703
8/16/2011	Gentex Corporation	MEGA - 2011	ZEELAND	Ottawa	1,110		\$160,250,000	3	\$2,446,000
9/13/2011	Hexagon Metrology	MEGA High Tech - 2011	WIXOM	Oakland	75		\$3,064,000	4	\$306,000
Totals:					10,748	51,036	\$3,105,391,476		\$2,379,963,703

*Combo Credit-Capital Investment reported only under Retention Credit